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ABSTRACT

This guide for institutions of higher education and other schools receiving funds under the William D. Ford Direct Loan Program details required and recommended procedures for the reconciliation process. The reconciliation process is explained to include cash management (the accounting for Direct Loan funds drawn down and disbursed to borrowers) and data matching -- a method of ensuring that all borrower information on the school's system matches the data on the system of the Loan Origination Center. Chapter 1 provides an overview of cash management and data matching activities and records. Chapter 2 focuses on managing the loan process from compiling loan origination records through actual disbursements, adjustments, and canceling disbursements and loans. Chapter 3 is on booking the loan (submission of the loan origination record, the promissory note, and the first actual disbursement record). Chapter 4 covers cash management procedures such as accounting for direct loan funds and determining the drawdown account. The data matching process of loan and cash detail records is the subject of chapter 5. The last chapter is on the reconciliation file and problem resolution. It covers creation of the reconciliation file, the data matching process, problem resolution, and common reconciliation problems/resolutions. (DB)

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ED 414 847

DIRECT LOAN CASH MANAGEMENT AND DATA MATCHING (RECONCILIATION)

DECEMBER 1997

William D. Ford Federal Direct Loan Program

U.S. DEPARTMENT OF EDUCATION
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CASH MANAGEMENT AND DATA MATCHING GUIDE

December 1997

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CHAPTER 1

CASH MANAGEMENT AND DATA MATCHING (RECONCILIATION)

OVERVIEW

The concept of reconciliation in the Direct Loan Program encompasses two activities performed by the school:

1. **Cash management**--the accounting for Direct Loan funds drawn down and disbursed to borrowers. A school demonstrates appropriate cash management of Direct Loan funds by the timely reporting of disbursement records (including adjustments and cancellations) that are submitted to the **Loan Origination Center (LOC)** as loan activity records.

2. **Data matching**--a method of ensuring that all borrower loan information has resulted in a "booked" loan and cash data (drawdowns and returns of excess cash) on the school's system matches the cash data on the LOC's system.

As a participant in Direct Loans, schools are responsible for the following key activities, which are performed on a regular basis at the school:

- create and transmit **loan origination record** data to the LOC;
- print **promissory notes** and mail signed documents to the LOC (for school participation Options 1 and 2), including both electronic and paper manifests;
- **draw down** Direct Loan funds, based on immediate funding needs, as determined by the loan amounts shown on the signed promissory notes (for school participation Option 2 only);
- **disburse funds** to borrowers;
- transmit loan **disbursement records** (including adjustments and cancellations) to the LOC;
- import all corresponding **acknowledgments** from the LOC for each of the above transmissions.

In performing these activities, the school must make sure that an internal process is in place to systematically research and resolve any rejected records, make the necessary corrections and then resubmit all previously rejected records.

Remember, the school is responsible for maintaining records for all of these key activities in its own internal system, whether the school uses EDExpress, vendor software or institutionally developed software. **Schools using third-party servicers to perform key tasks for Direct Loans, are responsible for making sure that these agents maintain required records in their systems**.

CASH MANAGEMENT OVERVIEW

The cash management activity is an integral part of the school's normal processing of Direct Loans that occurs throughout the month. A school must maintain accurate accounting processes for recording the receipt of Direct Loan funds from the U. S. Department of Education (ED) and the disbursement of Direct Loan funds to borrowers. At the beginning of a school's processing cycle of Direct Loans (usually the beginning of the academic year), the school's Direct Loan cash balance is zero - no Direct Loan funds have been received and no disbursements or returns of cash have been recorded.

Schools receive funds to be disbursed to borrowers from ED. Requested funds are deposited into the school's designated bank account within two to four business days of the date of the request. These funds are either requested directly by the school (using either FEDWIRE or ACH) or by the LOC, depending on the school's participation level:

- **Option 1 and Standard Origination schools** receive Direct Loan funds from the Department of Education (ED) based on the information provided by the school's submission of loan origination records. Option 1 and Standard Origination schools receive funds on a borrower by borrower basis. These schools must disburse funds to students and return excess cash to the LOC in accordance with Title IV cash management regulations. If funds intended for a specific borrower are not disbursed to that borrower (in accordance with Title IV cash management regulations), those funds must be returned to ED and the appropriate cancellation or adjustment record needs to be created and transmitted to the LOC.

- **Option 2 schools** request Direct Loan funds directly from ED based on the school's determination of cash needs for borrowers. Funds not disbursed to an intended borrower, may be disbursed to other borrowers or returned to ED in accordance with Title IV cash management regulations.

As a school receives Direct Loan funds, the amount must be reflected in the school's Direct Loan system as an increase in its cash balance. If a school must return Direct Loan funds to the Department of Education, the school's system should reflect that information as a decrease in its Direct Loan cash balance. As a school commences disbursement activity, each disbursement transaction will either decrease the school's cash balance (for example, when recording an actual disbursement) or increase the school's cash balance (as when a downward adjustment or cancellation is made to an actual disbursement).

The school accounts for its Direct Loan funds by the regular submission of loan activity records (timely reporting of loan origination records, promissory notes, disbursements, and adjustments and cancellations) to the LOC. Timely reporting, according to regulations effective July 1, 1996, means reporting all loan activity records to the LOC within 30 days following the date of disbursement. For example, if $2,000 is disbursed to a borrower on July 1, the institution is required to report the loan origination record, submit the promissory note and transmit the disbursement record supporting this disbursement (including adjustments and cancellations) to the LOC no later than July 31.

A school must internally reconcile its own Direct Loan account, including its cash balance, to make sure it can account for all drawdowns, disbursements and returns of excess cash. This means maintaining accounting records of all loan activities. On at least a monthly basis, the school needs to verify that the amount of funds drawn down has resulted in either a disbursement or a return of excess cash and that this information has been reported to the LOC in a timely manner. A school can monitor this activity by making sure that the amount of funds drawn down equals the amount of funds disbursed and reported. For example, a school that has drawn down $100,000 and has reported $80,000 in disbursements would have a disbursement to drawdown ratio of 80 percent. ***Schools should strive to maintain a disbursement to drawdown ratio of 100 percent to ensure that all funds are accounted for and have been reported timely.*** The Department of Education closely monitors these activities and notifies institutions that are not reporting loan activity data in a timely manner.

DATA MATCHING OVERVIEW

The purpose of the data matching activity is to make sure that borrower loan information has resulted in a "booked" loan and cash records (receipts of cash and returns of excess cash) submitted by the school to the LOC, matches the information the LOC has in its system. The accuracy of loan records is needed to ensure that the borrower has a true record of the loan amount and repayment periods and that proper servicing of the loan is achieved. The matching of cash records is needed to ensure that all drawdowns were received by the school and that any returns of excess cash

were received by the LOC. These steps are critical in order to demonstrate accountability and ensure program integrity.

A loan is considered to be **booked** by the Department of Education (ED) when:

1. the LOC has received and accepted a **loan origination record**;

2. a **promissory note** has been signed by the borrower and been accepted by the LOC;

   and,

3. a **first disbursement** has been made to the borrower and the disbursement record has been transmitted (reported) and accepted by the LOC.

Loan record data on the LOC's system must be an exact match of the loan activity recorded in the school's system for each loan originated by the school. If there is a discrepancy with loan data, the school is responsible for determining the reason for the difference. The school must then correct the discrepancy by taking the necessary steps to correct the inaccurate data.

As such, this data matching activity is initiated by the school. The school is responsible for submitting a reconciliation file to the LOC at least once a month. The reconciliation file reflects information on loans that have not yet been reconciled and includes:

- loan detail records;

- cash detail records; and,

- a summary record that includes totals of each type of cash and loan detail record.

The reconciliation file includes all previously unreconciled records through the **"as of" date**. The "as of" date is a date, chosen by the school, which represents the day of each month for which records will be included in the reconciliation file. The date remains constant for each month. For example, if a school chooses the 15th of the month as its "as of" date, the school is required to submit a monthly reconciliation file reflecting all activity as of the fifteenth of the month (January 15, February 15, March 15, and so on).

When the LOC receives the reconciliation file from the school, it attempts to match each loan and cash detail record submitted by the school with the records on its system. After processing the reconciliation file, the LOC transmits the file back to the school and, for each record, indicates whether or not it matches the LOC's records. For each unmatched record, the LOC provides a reject code specifying the reason for the rejected record. It is the school's responsibility to research each unmatched item

and correct it. The next file submitted by the school should include all previously unreconciled records that have since been resolved.

Loan Detail Record

A reconciliation file consists of unreconciled loan detail records for all disbursement activity that has occurred on loans originated by the school. Disbursement activity includes:

- initial or subsequent actual disbursements;
- cancellations to actual disbursements; and,
- adjustments to actual disbursements.

Disbursement records are submitted to the LOC continuously throughout the month, according to a school's established Direct Loan processing schedule. When a school transmits a reconciliation file to the LOC, the file contains details of the school's loan transactions, which are then matched against the corresponding disbursement records submitted by the school to the LOC.

For Direct Loan Program Academic Years 95/96 and 96/97, if disbursement records have been received and accepted by the LOC, then each loan detail record should match the record in the LOC's system and be considered reconciled. If the LOC has no disbursement record in its system that matches the loan detail record in the file submitted by the school, the loan detail will be considered unreconciled and returned to the school. The school performs the necessary research to determine why the loan detail record does not match, then corrects the record and returns it with the next reconciliation file.

For Direct Loan Program Academic Year 1997-98, when a *disbursement record* has been received, accepted by the LOC and ***results in the loan being booked***, the acknowledgment of the disbursement record returned by the LOC will include a *status flag* indicating that the record has been reconciled. This status flag is in addition to the disbursement status flag on the disbursement acknowledgment. The current amount of the loan that has been disbursed to the borrower (the cumulative amount to date, including adjustments and cancellations) will also be returned with this acknowledgment. If the disbursement record is accepted and does not book the loan, the acknowledgment will indicate that the disbursement has been accepted, but not reconciled (booked), and will also provide the reason why it did not reconcile (book).

Similarly, when a *promissory note* has been received, accepted by the LOC and ***results in the loan being booked***, the promissory note acknowledgment will include a *status flag* indicating that the record has been reconciled. This status flag is in addition to the promissory note status flag returned on the promissory note acknowledgment. In addition, the current amount of the loan that has been disbursed to the borrower (the

cumulative amount to date, including adjustments and cancellations) will also be returned with this acknowledgment. If the promissory note is accepted and does not book the loan, the acknowledgment will indicate that the promissory note has been accepted, but not reconciled (booked).

Cash Detail Record

The reconciliation file also includes cash detail records. While a school maintains its own internal system of accounting for the receipt and disbursement of Direct Loan funds, as well as any returns of excess cash, this information must be electronically transmitted to the LOC to ensure institutional accountability for these funds.
When a school transmits a reconciliation file to the LOC, the cash detail records will be matched against drawdown activity records maintained by ED and will also be matched against returns of excess cash submitted by the school (via checks or electronic wire transfers) and received by the LOC. This match will indicate whether or not the school received its drawdown of Direct Loan funds and if the LOC received the check or wire transfer from the school for excess cash.

If cash detail records sent by the school match the drawdown and excess cash records on the LOC's system, these records will be considered reconciled. Any unmatched records will be marked as unreconciled and the necessary research must be performed by the school to determine why the cash detail records do not reconcile. After the school has made the appropriate corrections, the unreconciled records must be resubmitted with the next reconciliation file.

Cash Summary Record

The reconciliation file also includes cash summary records. The information found in the Cash Summary report includes:

1. Prior Months' Unreconciled Total
2. Total Cash Receipts
3. Total Actual Disbursements
4. Total Canceled Disbursements
5. Total Adjusted Disbursements
6. Total Returns of Excess Cash
7. Ending Balance

8. Net Unbooked Transactions at the LOC

9. Ending Balance Per LOC Records

If any loan or cash detail record is unreconciled, one of the summary totals will be unreconciled and the necessary steps to correct the problem will need to be performed.

CHAPTER 2

MANAGING THE LOAN PROCESS

LOAN ORIGINATION RECORDS

STAFFORD LOANS

In order to create a Stafford loan origination record, the school needs to enter a value for the loan amount approved which is the amount that the student is actually eligible to receive based on the borrower's need. After entering a loan amount approved, the school needs to create anticipated disbursement dates and amounts that correlate to the particular loan.

PLUS LOANS

For a PLUS loan record, the borrower may **not** be approved for an amount greater than the loan amount requested on the Loan Application/Promissory Note. Since the loan amount requested may be greater than the loan amount approved, the anticipated disbursements for the PLUS loan are determined by the loan amount approved. Therefore, any changes to the loan amount approved must be recorded in the loan amount approved field. If the promissory note indicates different amounts for the loan amount approved and the loan amount requested, the LOC will use the lower amount to compare to the loan origination record.

CHANGING LOAN AMOUNTS - *PRIOR TO DISBURSEMENT*

DECREASING THE LOAN AMOUNT

A borrower may decide to borrow less than the loan amount initially printed on the promissory note after the loan has already been originated (the borrower can request a lower amount than indicated on the promissory note by crossing through the amount approved on the promissory note and initialing the change). In this situation, a **new promissory note is not required** because the borrower is requesting an amount that is lower than the amount for which he has been approved. However, the loan origination record must be updated with the new loan amount information. For any changes made to the loan amounts, new anticipated disbursement amounts must be calculated and new anticipated disbursements must be sent to the LOC as a **change record.**

INCREASING THE LOAN AMOUNT

If the loan amount needs to be increased after the loan origination record has been submitted, the school has two options:

1) create another loan for the difference between the two loan amounts; or

2) cancel the original loan and create a new loan with the new loan amount.

It is up to the school to determine which option is best for the school. If a school takes the first approach, the borrower would have two loan records and two promissory notes instead of one loan record and one promissory note and the school would have to make multiple disbursements for the same loan period. Or, a school may decide that it prefers the second approach listed above and choose to cancel the original loan and create an entirely new loan with a new promissory note.

For any changes made to the loan amounts, new anticipated disbursement amounts must be calculated and new anticipated disbursements must be sent to the LOC as a **change record**.

➡ **Remember**: *whether increasing a loan amount or decreasing a loan amount, the new loan amount must be sent to the LOC as a* ***change record*** *in order for the LOC to update its system with the new loan amount.*

CANCELING A LOAN - *PRIOR TO DISBURSEMENT*

The school may cancel a loan record at any time prior to transmitting actual disbursement information to the LOC. If, after originating a loan, a school determines that a student does not intend to enroll at that school and therefore, the loan origination record is not needed, the school should cancel the loan record in order to prevent any further activity on the loan record. Once a loan origination record is canceled, it cannot be reactivated. If the borrower decides to re-enroll at a later time, a new loan origination record must be created.

However, in a situation where a student does not plan to attend the school for one semester but plans to attend the school in a subsequent semester, the school may choose to maintain the loan origination record and not cancel the loan. When the student re-enrolls at the school, the school needs to follow the processes listed above if it needs to change the student's loan amounts. The school also needs to remember to transmit all change records to the LOC. If a school follows these steps, the loan origination record remains open for future activity.

PROMISSORY NOTES

An important part of managing the Direct Loan process is the school's handling of promissory notes for Direct Loan borrowers. All promissory notes must be accepted by the LOC. Accepted promissory notes are a key component for "booking" Direct Loans. Therefore, a school's promissory note procedures should include the following steps:

1. Promissory notes should be reviewed by the school upon being received from the borrower and prior to being submitted to the Loan Origination Center. Promissory note review/acceptance guidelines were published in ***Direct Loan Bulletin DLB-96-6***. These guidelines should be incorporated into a school's review process in order to eliminate the possibility of promissory notes failing to meet the Loan Origination Center's edits and the note being returned to the school for correction(s).

2. Promissory notes should also be reviewed in order to determine if the borrower has made changes to the loan amount requested. If the borrower has decreased the amount of the loan, the school needs to make sure the corresponding changes are made on the loan origination record and submit a change record to the LOC. Loan amounts on the loan origination record sent to the LOC must accurately reflect loan amounts on the promissory note.

3. Promissory notes are mailed directly to the LOC accompanied by a paper manifest (which lists the names of the borrowers and loan ID's). The paper manifest must be signed by the appropriate school official before it is mailed. **The school must also transmit an electronic manifest to the LOC.**

4. Promissory notes which have been rejected by the LOC must be corrected immediately and resubmitted to the LOC in a timely manner. This ensures that the processing of the loan continues without any delay.

5. It is important to remember that promissory note acknowledgments are returned to the school as they are accepted/rejected by the LOC. As such, promissory notes mailed together and listed on the same manifest, **are not necessarily acknowledged by the LOC at the same time.**

ACTUAL DISBURSEMENTS

Reporting the first disbursement of a loan for a borrower is one of the three required elements in order to "book" the loan. Subsequent disbursements of the loan must also be reported to the LOC. *Actual disbursement records must be reported no later than 30 days after the disbursement has been made*, regardless of whether the school is reporting a first or subsequent disbursement. Once a disbursement record has been accepted by the LOC and the loan is booked, the Direct Loan Servicing Center will send a disbursement notification letter to the borrower within 10 days. This disbursement notification is sent to the borrower each time a disbursement record is accepted by the LOC.

THE DISBURSEMENT DATE

The disbursement record is essential to verify that funds drawn down by a school have actually been disbursed to a borrower. The disbursement record also records the date the funds (whether using institutional or federal funds) were made available (disbursed) to the borrower. It is critical that a school accurately reports the borrower's date of disbursement on the loan origination record and transmits it to the LOC. This is particularly important for unsubsidized and PLUS loan borrowers who are charged interest beginning on the date of disbursement, regardless of whether federal or institutional funds were used to make the disbursement.

For disbursements made on or after July 1, 1997, a Direct Loan disbursement occurs when a school credits a student's account at the school or pays a borrower directly with Direct Loan funds or institutional funds (used in advance of the school receiving actual Direct Loan funds).

HOWEVER:

- if the school disburses institutional funds *ten or more days* prior to the first day of classes, the date of disbursement is the date of the 10th day before the first day of class.

- if the school disburses institutional funds to a first-time, first-year, undergraduate borrower, sooner than 30 days after the start of classes, the date of disbursement is the date of the thirtieth day after the first day of classes.

CHANGING THE DISBURSEMENT DATE

After transmitting the actual disbursement record, a school may determine that the wrong date has been recorded on its system (for example, the school uses the anticipated disbursement date as the disbursement date when actually the disbursement was made at a later date). In such a situation, ***the only way a school can change the disbursement date is to CANCEL the actual disbursement record that is in error and re-enter the disbursement transaction with the correct date.*** [Canceling disbursements will be discussed in detail later in this chapter.]

RULES FOR ACTUAL DISBURSEMENTS

In order to prevent the rejection of disbursement records and the possibility of unreconciled loan detail records, the following rules should be followed when reporting actual disbursements.

1) When entering the first disbursement, a school may enter either the gross or net amount. For all subsequent actual disbursement transactions for the loan, the school should be consistent in using either the gross or net amount as the basis for the transaction.

2) The actual disbursement date may not be a future date and cannot be beyond the date of system entry. The actual disbursement date reported on the loan origination record cannot be more than ten days prior to the first day of classes.

3) Disbursements must be reported sequentially. For example, the school may not report a second, third or fourth disbursement if there is no first disbursement, unless the first anticipated disbursement has been canceled.

CHANGING LOAN AMOUNTS - *AFTER DISBURSEMENT*

It is important to record any changes to loan amounts made prior to the first disbursement in the school's Direct Loan system and to report these changes to the Loan Origination Center. In addition, a loan amount may also need to be changed **after** an actual disbursement is made to a borrower. These changes also need to be recorded in the school's Direct Loan system and reported to the LOC.

Changes sometimes occur after funds are disbursed to a borrower that may cause a loan amount to be increased, decreased or canceled. When this occurs, the new loan amount information must be reported to the LOC which in turn informs the Direct Loan Servicing Center which notifies the borrower of the current status and amount of the borrower's loan.

Remember, the 30-day requirement for reporting actual disbursement records, which includes cancellations and adjustments, is necessary so that borrowers are charged interest based on correct loan amounts. Timely reporting is especially critical for unsubsidized and PLUS loan borrowers for whom interest accrues as of the date of disbursement.

In order to understand how adjustments to actual disbursements and cancellations of actual disbursements impact the reconciliation process, it is important to understand the rules that govern each of these activities.

ADJUSTMENTS TO ACTUAL DISBURSEMENTS

Once an actual disbursement has been accepted by the LOC, the disbursement amount can be adjusted upward or downward as many times as is necessary during the loan period. For example, an adjustment may be necessary when a student returns a portion of the original disbursement or becomes eligible for a scholarship and therefore, wants to reduce the amount of his or her loan. Remember, adjustments create disbursement records which must be exported to the LOC within 30 days of the activity.

THE ACTION DATE FOR AN ADJUSTMENT

The action date for an adjustment is the date the activity occurred that caused the adjustment. Using the above example, when a student returns funds to the school to reduce the loan amount, the date the student returns the funds to the school is the effective date of the adjustment. However, *if this date is over 120 days from the date of disbursement, the school cannot make an adjustment to the disbursement*. At this point in time, the original loan amount remains as is, and the amount to be returned is sent to the LOC as a prepayment. When an adjustment occurs after 120 days from the date of disbursement, the student remains responsible for the loan fees and any accrued interest.

RULES FOR ADJUSTING ACTUAL DISBURSEMENTS

1) The action type (gross or net) of the adjustment must correspond to the action type of the related disbursement. For example, if the school enters a first actual disbursement as a gross amount, the school must enter the gross amount of any subsequent adjustments.

2) The school may not record *two adjustments* for the same disbursement number with the *same action date*. When a second adjustment is recorded with the

same action date as a first adjustment, the LOC cannot determine the sequence in which the adjustments occurred which will cause the corresponding loan detail records not to reconcile.

3) **Adjusting an actual disbursement to zero does not cancel the actual disbursement nor does it change the disbursement date.**

4) When recording the adjustment, the school should be sure to enter the new adjusted amount (gross or net), not the difference between the original amount disbursed and the new disbursement amount.

CANCELING ACTUAL DISBURSEMENTS AND LOANS

Once an actual disbursement has been made and reported to the LOC, a school may cancel each individual actual disbursement. When the school cancels individual actual disbursements, the school must create a cancellation record for each actual disbursement that has been canceled. Canceling individual actual disbursements allows the loan record to remain open for additional activity.

If a school needs to cancel an entire loan, the school must first cancel each individual actual disbursement. Once the school has received acknowledgment from the LOC that each individual actual disbursement has been canceled, the school must send a change record to the LOC canceling the entire loan.

Any additional loan activity for the borrower will require the origination of a new loan and a new promissory note will need to be created.

THE ACTION DATE FOR CANCELLATIONS

The action date for an actual disbursement cancellation or a loan cancellation is the date the activity occurred that resulted in the cancellation. This date must be within 120 days of the date of the actual disbursement. A loan may not be canceled if the effective date is 121 days or more past the actual disbursement date. For example, if the borrower does not want the loan after the disbursement was made, and returns the full amount to the school within 120 days of the actual disbursement date, the date the borrower returns the funds is the effective cancellation date. If the date is past 120 days, the school may not cancel the loan. **After 120 days, funds sent to the Direct Loan Servicing Center will be applied as a prepayment on the borrower's loan account and the borrower will be responsible for fees and accrued interest.**

RULES FOR CANCELLATIONS OF ACTUAL DISBURSEMENT

1) The school may not use an action date for a cancellation that is more than 120 days past the actual disbursement date.

2) Once a disbursement has been canceled and accepted by the LOC, this action cannot be reversed.

3) A cancellation is always for the entire amount of the disbursement.

4) The school must export change records and cancellation of actual disbursement records to the LOC.

5) The school cannot cancel an actual disbursement by adjusting the actual disbursement to zero.

CHAPTER 3

BOOKING THE LOAN

BOOKED LOANS

It is important for Direct Loan schools to ensure ***that the loan is booked.*** In the Direct Loan Program, a loan is considered to be booked by the Department of Education (ED) when the school has completed the following steps:

1. the **loan origination record** has been submitted by the school and accepted by the LOC;

2. the **promissory note** has been submitted by the school and accepted by the LOC;

3. the first actual **disbursement record** has been submitted by the school and accepted by the LOC.

A booked loan becomes a legal and binding obligation between ED and the borrower for repayment of the loan. ***It is important for schools to realize that until the loan origination record, promissory note and disbursement record have been received and accepted by the LOC, the loan is not considered a booked loan by ED. ED does not assume liability for the Direct Loan until the loan is booked.***

In addition, ED begins servicing a loan once the loan is booked. At that point, the borrower receives notification ("Welcome Letter") from the Direct Loan Servicing Center that he or she has received a Direct Loan.

Reminder: Effective July 1, 1996, reporting requirements for submission of all Direct Loan records were implemented. As stated in the Federal Register, December 1, 1995, Section 685.301, "a school that originates a loan must submit the promissory note, loan origination record, and initial and subsequent disbursement records to the Secretary no later than 30 days following the date of disbursement." Cancellations and adjustments of loans are considered disbursement records as well, and, therefore, are also required to be reported within 30 days of the date of the adjustment or cancellation.

As noted above, the booking of loans occurs when the process from loan origination to disbursement has been successfully completed by the school. To ensure that these processes are completed, schools should have a thorough understanding of the entire Direct Loan Program and develop a processing routine or **production schedule**.

A production schedule will assist schools in properly managing the program. A school's processing routine should be tailored to best suit the institution's needs and available resources. As the school develops its production schedule, it should take into account its unique individual characteristics (for example, the school's loan volume, staff resources, historical trends, peak/off-peak periods, etc.) to make sure the production schedule will work. In addition, during periods of heavy loan volume, such as registration, the production schedule may have to be modified to accommodate increased loan processing. During slower periods, the processing schedule may be modified to allow for re-allocation of resources to other office activities. In addition, a production schedule is essential for minimizing processing problems and assuring all steps of a processing cycle are complete. It is also a useful quality assurance tool to help a school assess its management of Direct Loans.

THE BOOKED LOAN CONCEPT - Academic Year 1997-98

One of the essential goals of a school's administration of the Direct Loan Program is to ensure that loans are booked and to verify that the LOC has recorded the correct loan information for all Direct Loan borrowers. Remember, a loan will not be booked or reconciled until the LOC has accepted all three required items listed above.

For **1995-96 and 1996-97**, booking the loan is verified through the "data matching" process. The data matching process will be fully discussed in Chapter 5.

For **1997-98**, verification that a loan is booked and that the amount of the loan is correct is accomplished through the acknowledgment process of disbursement records or promissory notes by the LOC. The promissory note and disbursement acknowledgments will now include a reconciliation (booked) status, as well as the specific promissory note or disbursement status. By reviewing the promissory note and disbursement acknowledgment reports returned by the LOC, a school can verify whether or not a loan has been booked and the current amount of the loan (the cumulative amount to date, including adjustments and cancellations).

The acknowledgment of the **disbursement record** will include an indication of whether or not the **disbursement record** resulted in the loan being booked. In addition, this acknowledgment will include the current amount of the loan that has been disbursed to the borrower (the cumulative amount to date, including adjustments and cancellations). If the disbursement record is accepted and does not book the loan, the acknowledgment will indicate that the disbursement has been accepted, but not reconciled (booked), and will also provide the reason why it did not reconcile (book).

Similarly, the acknowledgment of the **promissory note** will include an indication of whether or not the **promissory note** resulted in the loan being booked. In addition, this acknowledgment will include the current amount of the loan that has been disbursed to the borrower (the cumulative amount to date, including adjustments and

cancellations). If the promissory note is accepted and does not book the loan, the acknowledgment will indicate that the promissory note has been accepted, but not reconciled (booked).

Once the loan has booked, regardless of whether it was the promissory note or the disbursement that booked the loan, all subsequent *accepted* disbursements for the loan (including adjustments and cancellations) will be reconciled. All acknowledgments for these subsequent disbursements will include a reconciliation (booked) flag that will indicate that these subsequent disbursements have been reconciled. In addition, once the loan has booked, all subsequent disbursement acknowledgments (including adjustments and cancellations) will include the current amount disbursed to the borrower.

After the loan has been booked, since all loan disbursements are considered reconciled (booked) when accepted, these disbursement records should **not** be included in the monthly reconciliation file submitted by the school. The school's monthly reconciliation file should now include only cash detail records (drawdowns and excess cash) and **unbooked disbursement records**.

Remember, schools can identify those loans which have not yet booked (meaning that the school has items that have not been accepted by the LOC) by reviewing the codes (found in the Direct Loan Technical Reference provided to schools by NCS) listed on the acknowledgments received back from the LOC or by reviewing the 30-Day Warning Report.

CHAPTER 4

CASH MANAGEMENT

ACCOUNTING FOR DIRECT LOAN FUNDS

A school must maintain accurate accounting processes for recording the receipt of Direct Loan funds from the Department of Education and the disbursement of funds to borrowers. When a school receives a drawdown of Direct Loan funds, the amount of the drawdown should be documented in the school's Direct Loan system as an increase in its Direct Loan cash balance. When a school must return Direct Loan funds to the Department of Education, the school's system should reflect that information as a decrease in its Direct Loan cash balance. As a school commences disbursement activity, each disbursement transaction will either decrease the school's cash balance (for example, when recording an actual disbursement) or increase the school's cash balance (for example, when a downward adjustment or cancellation is made to an actual disbursement).

Institutions must reconcile their own Direct Loan accounts, including its cash balance, to make sure that they have accounted for all drawdowns, returns of excess cash and disbursements. This means maintaining accounting records of all loan activities and verifying that all drawdowns have resulted in either a disbursement or a return of unused funds.

CASH BALANCES

Beginning with **1997-98**, and for all future years, a school's cash balance will be year specific. For schools that began participation in 1994-95, 1995-96 or 1996-97, the school's cash balance is a combined balance of all the years for which the school participated. For 1997-98, all schools' cash balances will begin at zero and schools will be responsible for maintaining a separate cash balance for 1997-98.

Specifically, drawdowns for 1997-98 **must be separate from drawdowns for any prior academic year**. For Option 1 and Standard Origination schools, the LOC will generate separate 1997-98 drawdown requests to the Department of Education. For Option 2 schools, if funds are drawn down on the same day for both 1997-98 and a prior year, the school will need to perform two separate drawdown requests. Excess cash for prior years must be returned separately from excess cash for 1997-98.

There are two sets of transactions, loan detail (disbursements, adjustments and cancellations) and cash detail (drawdowns and returns of excess cash) that affect a school's Direct Loan cash balance.

Disbursements, Adjustments and Cancellations

These transactions are collectively known as "loan detail" transactions. Each individual loan detail transaction has an affect on the school's cash balance:

- Disbursements always reduce the cash balance.
- Adjustments either increase the cash balance (downward adjustment) or decrease the cash balance (upward adjustment).
- Cancellations always increase the cash balance. Remember, canceled disbursements only cancel individual disbursements; while a loan can only be canceled after all disbursements have been canceled and acknowledged by the LOC.

Reporting Disbursements, Adjustments and Cancellations

Cash management includes the timely reporting of disbursements, adjustments and cancellations to the Loan Origination Center. Timely reporting, according to regulations, means reporting loan activity within thirty days of the date of the disbursement. For example, if $2,000 is disbursed to a borrower on July 1, the institution is required to report this information to the LOC no later that July 31. The Department of Education monitors this activity and notifies institutions that are not reporting in a timely manner.

Drawdowns

Schools receive Direct Loan funds to apply to borrowers accounts from the US Department of Education. Prior to the school's first drawdown, schools supply ED with information about the school's bank account that will receive the funds. ED supplies the school with a PIN number; and, if an Option 2 participant, a password. The PIN and password are necessary in order to request Direct Loan funds. It is important to make Direct Loan funding requests separate from funding requests for other Title IV programs.

DETERMINING THE DRAWDOWN AMOUNT

The level of participation assigned to a school determines how the school receives Direct Loan funds to disburse to borrowers.

Standard Origination and Option 1

Standard Origination and Option 1 schools do not request funds directly from ED. Drawdowns for these schools are requested from ED by the Loan Origination Center (LOC). The amount requested is based on the Anticipated Disbursement dates and amounts listed on the loan origination records submitted by the school. Approximately 45 days prior to each anticipated disbursement date, schools receive a roster listing the loans to be disbursed. This roster should be reviewed by the school and any changes to anticipated dates or amounts should be reported to the LOC.

The LOC will draw down funds four days prior to each anticipated disbursement date. The amount drawn down is deposited in the school's designated bank account within approximately three to four days. For each drawdown, the school receives a list of borrowers and the expected disbursement amounts for each borrower. When funds are received in the school's account, the school must disburse the funds to the borrowers on the list in accordance with Title IV cash management regulations. Any funds not disbursed must be returned to the LOC as excess cash.

Option 2

Option 2 schools determine the amount of funds to draw down based on how much money is needed to be disbursed within three days of the date the school will receive the funds. These schools will use either ACH or FEDWIRE to request funds directly from ED. Generally, ACH requests will be deposited in the school's bank account within three business days from the date the funds were requested. FEDWIRE requests are generally received within two business days.

In determining the amount to draw down, schools must calculate the amount that is required to fund disbursements for loans that have been originated. In making this determination, the school should consider the following:

- borrower's enrollment status
- holds on the student's accounts
- satisfactory academic progress (SAP)
- whether the promissory note has been signed

Sometimes, after receiving the drawdown, the amount actually disbursed to students is less than the amount originally drawn down. When this occurs, an Option 2 school can use the unused funds for other eligible borrowers within the time frames dictated by the Title IV cash management regulations. The use of these funds would have to be taken into consideration when calculating future drawdowns. If drawn down funds cannot be used for other borrowers, these funds must be returned to the LOC as excess cash.

DETERMINING EXCESS CASH

The following are guidelines for determining the return of excess cash to the U. S. Department of Education:

- When the institution has drawn down too much money, resulting in excess cash, the school must return these funds as excess cash.

- **Within 120 days** from the date of disbursement, for loan funds being returned due to an adjustment or cancellation to a student's account, the school needs to:

  [Note: When a school calculates a refund within 120 days from the date of disbursement, the refund must be reported either as an adjustment or a cancellation and funds should be returned as excess cash.]

  1. make an electronic adjustment /cancellation to the student's disbursement record, **and**

  2. A. return these funds as **excess cash**

     OR

     B. **if the school's loan origination level is Option 2,** the school can use these funds (the amount that would be returned) for another borrower in accordance with the appropriate cash management regulations.

REMINDER: A school cannot adjust or cancel a loan if the effective cancellation or adjustment date is **after 120 days from the date of disbursement**.

Mail check, payable to the U. S. Department of Education, to the following address if excess cash is being returned:

Direct Loan Origination Center
Attn: Excess Cash
P. O. Box 2011
Montgomery, AL 36102-2011

- **After 120 days** from the date of disbursement, for loan funds being returned to "prepay" a borrower's balance (refund to the borrower's loan account), the school needs to:

    1. return funds as a **prepayment** to borrower's account (refund the amount to the borrower's account).

    2. **do not make any electronic adjustments or cancellations to the borrower's account.**

    Remember: this amount is **not** excess cash.

Mail check to the following address if sending a prepayment:

Direct Loan Servicing Center
Attn: Payment Center
P. O. Box 746000
Atlanta, GA 30374-6000

RETURNING EXCESS CASH

The Direct Loan system associated with the schools (drawdowns, disbursements and excess cash) does not handle cents. As such, **do not send cents, send only whole dollars on any transmittals of excess cash.**

There are three methods schools can use to send Direct Loan excess cash to the Department. However, the method a school chooses is dependent upon the amount being returned:

Returning $100,000 or more:

- **FEDWIRE --** An electronic method of transferring funds from the school's bank to the Department. This method **must** be used if the amount of excess cash is $100,000 or more. Schools will need to contact their banks to find out what information is needed to initiate this type of transaction. The school's bank will need to know the following information about the LOC:

    Financial Institution: Compass Bank
    Account Number: 707726726
    ABA Number: 062001186

Instruct your bank to use the following reason for the remittance:

Direct Loan Excess Cash

Returning less than $100,000

- **ACH** (Automated Clearing House) -- This is an electronic method of transferring funds from a school's bank to an account at the LOC's bank that receives excess cash payments of Direct Loan funds only. Schools will need to contact their banks to find out what information is needed to initiate this type of transaction. The bank will need to know the following information about the LOC:

  Financial Institution: Compass Bank
  Account Number: 707726726
  ABA Number: 062001186

- **FEDWIRE** -- (see instructions for returning funds greater than $100,000)

- **CHECK** -- Schools can send excess cash via check if the amount being returned is less than $100,000. Schools should not send checks for each individual borrower or each loan type. Schools need to indicate on the check, or any accompanying correspondence, that the funds being returned are Direct Loan Excess Cash and include the school's Direct Loan G-code.

EXAMPLES OF CASH MANAGEMENT

Example 1: Standard Origination School

The ABC school year begins on September 16, 1997. ABC has established a bank account to receive Direct Loan funds and has been assigned the Standard Origination level of participation. On July 15, ABC submitted loan origination records for all of its borrowers with an anticipated first disbursement date of September 17 for 10 borrowers and October 17 for the remaining students. Each loan is a subsidized Stafford loan for $2,000 with half of the loan to be disbursed in 1997 and the remaining to be disbursed in 1998. Since the school's participation level is Standard Origination, the LOC is responsible for all activities regarding promissory notes and, by September 17, has received 13 signed notes (nine of those loans to be disbursed on September 17 and four of those loans to be disbursed on October 17).

On August 5, the school received a roster from the LOC indicating that 10 loans totaling $20,000 will have disbursements made on September 17. After examining the roster, the school determined that one of the borrowers had dropped to half time and was now only eligible for a loan of $1,000. The school should transmit a change record to the LOC to reflect the new loan amount approved.

On September 3, the school received another roster from the LOC indicating that five loans would be disbursed on October 17 totaling $10,000. The school determined that one of the borrowers listed on the roster had decided to go to the XYZ school and would not be attending ABC. The school should transmit a change record to the LOC to cancel the entire loan.

On September 12, the school received a list from the LOC indicating that a drawdown would take place on that day for $8,500. The list indicated each borrower and their respective disbursement amounts. The school noted that each borrower would receive $1,000, except for the borrower that dropped to half time, who would only receive $500. The school also noted that one of the borrowers was not listed. After checking with the LOC, the school determined that the borrower had not yet returned the promissory note.

On September 17, the school checked its bank account and found that $8,500 had been deposited in its account. The $8,500 was credited to each student's account on September 17.

On October 13, the school received another list of borrowers with an amount indicating that $4,000 would be drawn down on that day. This amount was received on October 15 and the student's accounts were credited on October 17.

On October 18, the school received another list from the LOC which included the borrower who had not previously signed his promissory note. The list indicated that $1,000 would be drawn down. The $1,000 was received on October 22 and credited to the student's account.

On October 25, the end of the school's add/drop period, the school found that two students dropped out of school and three others had dropped to half-time. The school transmitted to the LOC two cancellation records totaling $2,000 and three adjustment records totaling $1,500 to reflect the changes. On October 28, the school sent $3,500 to the LOC as a return of excess cash.

The cash activity should be reflected in the school's account as follows:

	Beginning Balance	$	0
9/17/96	Cash receipts	$	8,500
9/17/96	Cash disbursements	$	(8,500)
	Ending Balance, September 30	$	0
10/15/96	Cash receipts	$	4,000
10/17/96	Cash disbursements	$	(4,000)
10/22/96	Cash receipts	$	1,000
10/2296	Cash disbursements	$	(1,000)
10/25/96	Adjustments	$	1,500
10/25/96	Cancellations	$	2,000
10/28/96	Return of excess cash	$	(3,500)
	Ending Balance, October 31	$	0

After all cash activity has been properly reported, the Direct Loan cash balance is zero. This indicates that all funds drawn down have been properly disbursed or returned to the LOC as excess cash. It is important to remember to send records of the disbursement, adjustment and cancellation transactions to the LOC as quickly as possible, but no later than 30 days after the transaction occurred.

Example 2: Option 2 School

The ABC school year begins on September 15, 1997. ABC has established a bank account to receive Direct Loan funds and has been assigned an Option 2 level of participation. On July 15, ABC submitted loan origination records for all of its borrowers with an anticipated first disbursement date of September 15 for 10 borrowers and October 15 for the remaining students.

Each loan is a subsidized Stafford loan for $2,000 with half of the loan to be disbursed in 1997 and the remaining to be disbursed in 1998. Since the school's participation level is Option 2, the school must obtain signed promissory notes from each borrower and mail them to the LOC. By September 15, the school has received 13 signed promissory notes and mailed them to the LOC (9 for those loans to be disbursed on September 15 and 4 for those loans to be disbursed on October 15). All of the notes were accepted by the LOC.

The school plans to credit borrowers accounts on September 17. As such, on September 10, the school began to estimate its cash needs. It was determined that one of the borrowers had dropped to half-time and was now only eligible for a loan of $1,000. The school should transmit a change record to the LOC to reflect the new loan amount approved.

The school uses FEDWIRE to request Direct Loan funds. On September 13 (to take into account the weekend), the school requested $8,500 from ED. The $8,500 represents $1,000 for each of eight loans and $500 for the student who dropped to half-time. Since one borrower has not yet returned his signed promissory note, the school will not disburse to him on September 17.

On September 17, after ensuring that the $8,500 drawn down was in the school's bank account, ABC credited the nine borrowers' accounts.

On October 10, the school began to estimate its cash needs for the next drawdown which would be needed by October 17. The school calculated that it needed $4,000 to cover the four loans of $1,000 each. This amount was requested on October 13, received October 15 and the students' accounts were credited on October 17.

On October 18, the school received the signed promissory note not previously received. This note was immediately sent to and accepted by the LOC. A request was made for a drawdown of $1,000 on October 20. The $1,000 was received on October 22 and credited to the student's account.

On October 25, the end of the school's add/drop period, the school found that two students dropped out of school and three others had dropped to half-time. The school transmitted to the LOC two cancellation records totaling $2,000 and three adjustment records totaling $1,500 to reflect these changes. On October 28, the school sent $3,500 to the LOC as a return of excess cash since the school could not use those funds for another borrower in accordance with cash management regulations.

The cash activity should be reflected in the school's account as follows:

	Beginning Balance	$	0
9/17/96	Cash receipts	$	8,500
9/17/96	Cash disbursements	$	(8,500)
	Ending Balance, September 30	$	0
10/15/96	Cash receipts	$	4,000
10/17/96	Cash disbursements	$	(4,000)
10/22/96	Cash receipts	$	1,000
10/2296	Cash disbursements	$	(1,000)
10/25/96	Adjustments	$	1,500
10/25/96	Cancellations	$	2,000
10/28/96	Return of excess cash	$	(3,500)
	Ending Balance, October 31	$	0

Note that in both examples, the cash transactions and balances are identical. All schools, regardless of the participation level, will record cash transactions in the same manner, based upon the amounts and dates that the transactions occur.

CHAPTER 5

THE DATA MATCHING PROCESS

The second step of "reconciliation" for the Direct Loan Program is the data matching activity. This process compares the records on the school's system with records on file with the Loan Origination Center. The information "matched" in this process is comprised of:

Loan detail records - disbursement data which has been previously sent to the LOC by the school in disbursement files (records of actual disbursements, adjustments to actual disbursements and cancellations of actual disbursements);

Cash detail records - receipts of cash (drawdowns) and returns of excess cash that are matched against LOC records of checks (or electronic funds) received from the school and school drawdowns as reported to the LOC by ED;

Cash summary records - total loan detail and total cash detail records.

The data matching process occurs as the final step in a school's processing cycle of Direct Loans. *The data matching activity should be performed at least every 30 days and may be conducted more frequently, if needed.* Performing this activity on a monthly basis provides a school with the ability to ensure the accuracy of loan information for the school's borrowers.

The task of "problem resolution" is an essential step in resolving unmatched data between the school and the LOC. A school is responsible for making sure that all items match and if not, needs to determine the problem and resolve it as quickly as possible. If the school manages all Direct Loan processes accurately and efficiently, the school will reduce the number of unreconciled items returned by the LOC.

DATA MATCHING - LOAN DETAIL RECORDS

The creation of a disbursement record, whether an actual disbursement record, an adjustment to an actual disbursement record or a cancellation of an actual disbursement, creates a **loan detail record** which will be included in a reconciliation file. It is important to point out that *while disbursement records are sent frequently throughout a school's monthly processing cycle, **loan detail records** are submitted only in the reconciliation file.*

The reconciliation file transmitted to the LOC should include all **loan detail records** that have not been previously submitted and reconciled.

For Direct Loan Program Academic Year 1997-98, *many loan records will have already been reconciled (booked) at the time that either the promissory note or disbursement record was accepted and acknowledged by the LOC, and therefore will not be included as loan detail records in the monthly reconciliation file submitted to the LOC.*

For 1997-98, when either the promissory note or the initial disbursement record has been received, accepted by the LOC and ***results in the loan being booked***, the acknowledgment returned by the LOC for the booking component (either the promissory note acknowledgment or disbursement acknowledgment) will include a status flag indicating that the record has been reconciled. The current amount of the loan that has been disbursed to the borrower (the cumulative amount to date, including adjustments and cancellations) will also be returned with the acknowledgment. When a subsequent disbursement for this loan (including adjustments or cancellations) is reported to the LOC and accepted by the LOC, the acknowledgments for the subsequent disbursements will also indicate that these disbursements have been reconciled (booked) and will include the current amount disbursed to the borrower. *Since the initial and subsequent disbursement records have already been acknowledged by the LOC as reconciled, there will be no loan detail records for this loan included in the reconciliation file. For 1997-98, the school's monthly reconciliation file should now include only* ***cash detail records (drawdowns and excess cash) and unbooked disbursement records.***

The following example illustrates the 1997-98 processing change:

A school reports a first actual disbursement amount of $2,000 for a borrower. The loan origination record and promissory note for this loan have already been accepted by the LOC. After reporting the $2,000 disbursement, the school makes an adjustment decreasing the loan amount to $1,000 and reports the adjustment to the LOC.

For 1995-96 and 1996-97, when this school creates a reconciliation file, the loan detail records for the first actual disbursement and the subsequent disbursement will be included in the reconciliation file. The school submits the reconciliation file to the LOC and the LOC matches both loan detail records to the corresponding disbursement records previously submitted to the LOC. Both of the loan detail records will be accepted by the LOC because the loan has been booked and the dollar amounts match.

For 1997-98, when the school imports the acknowledgment for the first actual disbursement, the acknowledgment will reflect that the disbursement has been accepted. In addition, the reconciliation status will indicate that the disbursement has

been reconciled (booked) and that the current amount of the loan is $2,000. When the school imports the acknowledgment for the adjustment, the acknowledgment will indicate that the adjustment has been reconciled (booked) and the current amount of the loan is now $1,000. Since these records will have already been reconciled, these records ***should not be included in the reconciliation file submitted by the school.***

DATA MATCHING - CASH DETAIL RECORDS

As part of the data matching portion of reconciliation, schools are required to match drawdown and return of excess cash transactions (cash detail transactions) with the LOC. These transactions are reported to the LOC by the Department of Education. The school must create cash detail records on its system that should match the amounts reported by ED to the LOC. The school uses its bank account records to obtain the information (date, amount and, if applicable, confirmation number) required to create the cash detail records.

Cash Receipts

Each time a school receives Direct Loan funds, the school must create a cash receipt record to be transmitted to the LOC with the school's reconciliation file.

- The school must enter a separate cash receipt record for each drawdown, even if the drawdowns were received on the same day.
- The date to be used on the record is the date the Direct Loan funds were received in the school's bank account.
- When a drawdown is made, the school receives a confirmation code. This number should be included with the record.
- If an erroneous amount or date is entered on the cash receipt record, the erroneous record is corrected by entering a negative transaction with the same date and amount, followed by entering the correct date and amount on a new record.
- Schools must transmit cash receipt records regardless of whether the LOC requested the drawdown (Standard and Option 1 participation levels) or the school made the request (Option 2 participation level).
- ***Drawdowns for 1997-98 must be separate from drawdowns for any prior award year.***

Return of Excess Cash

Each time a school returns Direct Loan funds that are "excess cash" to the Department of Education, the school must create an excess cash record to be transmitted to the LOC with the school's reconciliation file.

- Excess cash return records must include the date and amount corresponding to actual excess cash returns to the Department of Education.

- Excess cash return amounts cannot be netted with cash drawdowns and transmitted as one record. Each excess cash return transaction must have a corresponding excess cash return record.

- If an erroneous amount or date is entered on the excess cash return record, the erroneous record is corrected by entering a negative transaction with the same date and amount, followed by entering the correct date and amount on a new record.

- ***Excess cash for 1997-98 must be returned separately from excess cash for all prior academic years.***

Cash Summary Records

The balances in the Cash Summary report are matched with the LOC system. The Cash Summary report lists the school's ending cash balances, total for disbursements, adjustments and cancellations; and totals for receipts of cash and returns of excess cash. The Cash Summary report also provides the total of unbooked loan balances. Unreconciled amounts in the Cash Summary report indicate unreconciled loan and cash detail records. The school should compare cash summary balances with its internal records.

CHAPTER 6

THE RECONCILIATION FILE AND PROBLEM RESOLUTION

PRIOR TO RECONCILING

The school is required to submit a reconciliation file to the Loan Origination Center every 30 days. Before the school attempts to export a reconciliation file, the school should make sure that it has imported all outstanding acknowledgments for loan origination records, promissory notes, disbursements and change records in order to minimize the number of unreconciled items. The following steps should be followed:

1. Export all pending data:

- Export and transmit all loan origination records and change records to the LOC.
- Export and transmit the electronic promissory note manifest. Sign the paper manifest and mail it with the corresponding promissory notes to the LOC.
- Export and transmit all disbursement records (including adjustments and cancellations) to the LOC.
- ***It is best to process and transmit records in the order of occurrence: loan origination records, promissory notes, disbursement records, cancellations and adjustments.***

2. Import all outstanding acknowledgments:

- Receive and import all loan origination acknowledgments.
- Receive and import all promissory note acknowledgments.
- Receive and import all disbursement (including adjustments and cancellations) acknowledgments.

- ***Remember to check for all rejected records. Correct all rejected records and re-transmit the corrections as quickly as possible to avoid any processing delays.***

3. **Allow enough time for pending items to return to the school from the LOC as acknowledged.**

4. **Verify that all transmitted batches have been acknowledged.**

5. **Review cash receipts and returns of excess cash for accuracy and reconcile this information with the school's internal accounting records:**

- This should be done on a daily or weekly basis.

- Make sure the dates and amounts match and that the correct transaction type has been entered. Be careful not to record a receipt of cash amount as an excess cash transaction or vice versa.

6. **Identify those loans which have not yet been booked. Only those loans which have been booked will reconcile. Unbooked loans will be returned as unreconciled items:**

- Loan origination record status must be equal to "A".

- Promissory note status must be equal to "A".

- Disbursement record status must be equal to "A".

7. **Back up your system:**

- Always back up your system regularly. In addition, periodically check your back-up data to make sure the back-up system is working correctly.

- ***The school should always back up its system before any major processing has begun.***

8. Be sure to use correct "as of" date for the school's reconciliation file.

- Always use the school's designated "as of " date for the current period, even if the school is reconciling items from a previous period. *If the wrong date is used, the file will not be processed and all records will be rejected. The entire file will then have to be re-submitted.*

CREATING THE RECONCILIATION FILE

"AS OF" DATE

When creating a reconciliation file, the school must use as its end date the "as of" date the school has selected. A school can select any day of the month as its "as of" date; however, the date must be used consistently for each reconciliation file submitted. If a school uses the end of the month as its "as of" date, the school must always use the actual last day of each month (for example; February 28, March 31, April 30, etc.).

YEAR-SPECIFIC RECONCILIATION FILES

Schools must submit a reconciliation file for 1997-98 separate from a reconciliation file for all previous years. Therefore, schools will be sending two reconciliation files each month until 1995-96 and 1996-97 are closed.

TIMING ISSUES

After a reconciliation file has been sent for a new reconciliation period, previous periods are closed. When the file for the new reconciliation period is submitted, it will include all unreconciled items. Unreconciled items from a previous period are carried over into the current period and included with the current month's unreconciled items. Schools should resolve all unreconciled items from a previous month's reconciliation attempt before submitting the next reconciliation file, since those items will be included in the next submission. If not resolved, the unreconciled item will be returned again as unreconciled.

Schools which serve as a central drawdown point and then allocate funds among multiple campuses should wait at least ***five days*** after requesting a drawdown before exporting a Drawdown Reconciliation/Allocation Statement. This will allow the LOC to receive the drawdown record from ED prior to receiving the Drawdown Reconciliation/Allocation Statement.

MULTIPLE RECONCILIATION FILES

The school can send multiple reconciliation files during the current 30-day reconciliation period. Sending more than one file in a period has important advantages. Transmitting a file early in the 30-day period will enable the school to begin resolving unreconciled items immediately. In addition, multiple reconciliation files could mean smaller batches are being transmitted and, if so, this will help shorten the transmission time and reduce the occurrence of transmission errors.
Remember, regardless of how many reconciliation files are submitted by the school within the current reconciliation period, the school must always use the established "as of" date for the period. For example, if the "as of" date selected is the end of the month and a school submits a reconciliation file at the end of each week during the month of September, each of the reconciliation files submitted during that month must all have the same "as of" date (September 30), despite the fact that each file was submitted on various dates (September 7, 14, 21 and 29).

FALLING BEHIND

Schools are required to submit a reconciliation file every 30 days. However, if a school is unable to submit a reconciliation file on a monthly basis *due to a systems or transmission problem*, schools have two options available for reconciling the prior periods:

1. **Reconcile with the current period "as of" date. The reconciliation file will include all records previously unreconciled from the beginning of the school's drawdown and disbursement activities**.

For example: A school receives its first drawdown in August and begins reporting disbursements. However, the school is unable to submit its first reconciliation file until November. The school has selected the end of the month as its "as of " date. In early December, the school submits its first reconciliation attempt with an "as of" date of November 30. This reconciliation file will include all loan and cash detail records from August through November 30. This file will be quite large and could have a number of unreconciled items that will need to be addressed by the school prior to the next 30-day reconciliation period.

2. **Reconcile each prior period individually and consecutively. The acknowledgment for each period must be imported and all unreconciled items must be resolved prior to submitting the reconciliation file for the next period.**

For example: In early December, the school would submit a reconciliation file for the first previous period that should have been submitted. Since the school's "as of" date is the end of the month, this reconciliation file would have an "as of" date of August 31. The school would import the acknowledgment for this file, resolve any unreconciled items and send in a file for the next previous period. This next reconciliation file would have an "as of" date of September 30 and would include the September loan and cash detail records and all previously unreconciled records from the August file that have been corrected by the school. The school proceeds in this manner until it is caught up with the current period.

THE DATA MATCHING PROCESS

After a school submits a reconciliation file to the LOC, the LOC will perform the necessary data matching activity and will return a reconciliation acknowledgment to the school. The school should import the reconciliation acknowledgment immediately. This process should update the loan and cash detail reconciliation status flags. If the records were accepted by the LOC, the corresponding loan and cash detail records will be considered reconciled. Any loan or cash detail records that were not matched with data on the LOC system will be returned as unreconciled and must be resolved.

PROBLEM RESOLUTION

Unreconciled records fall into three categories:

- **Cash Summary**
- **Cash Detail**
- **Loan Detail**.

In order to address unreconciled items in a timely manner, the school needs to import the acknowledgment and begin resolving all unreconciled items.

UNRECONCILED CASH SUMMARY

The cash summary section of the reconciliation acknowledgment reflects information regarding the following:

- Amount reported by the school for each cash balance
- Amount on the LOC's system for each cash balance
- Reconciliation status of each cash balance

UNRECONCILED CASH DETAIL

The cash detail section of the reconciliation acknowledgment provides information regarding the status of cash detail records (cash receipts and returns of excess cash). The following information is included in this section:

- Date of each cash transaction
- Amount reported by the school for each cash transaction
- Amount on the LOC's system for each cash transaction
- Reconciliation status of each transaction
- If not reconciled, applicable reconciliation reject codes

The LOC receives the school's drawdown and excess cash history from ED for each reconciliation period. The LOC matches the information from ED against the information provided in the school's reconciliation file. The dates the funds were deposited into the school's account and the amounts for each drawdown request should match the LOC's records. In addition, the dates and amounts of excess cash transactions in the school's reconciliation file should match the dates and amounts on checks or electronic transactions received by the LOC.

Cash detail records may not match if there are:

- Missing or inaccurate school cash receipt records
- Missing or inaccurate school excess cash records
- Missing or inaccurate LOC cash receipt records
- Missing or inaccurate LOC excess cash records

UNRECONCILED LOAN DETAIL

The loan detail section of the acknowledgment provides information regarding the reconciliation status of each disbursement record submitted in the reconciliation file. This section reflects the following:

- Borrower name and ID for each transaction

- Disbursement number
- Type of loan transaction (disbursement, cancellation or adjustment)
- Amount reported by the school for each transaction
- Reconciliation status
- If not reconciled, applicable reconciliation reject codes

For **1995-96 and 1996-97**, there should be a loan detail record for each disbursement record previously transmitted to the LOC. For **1997-98**, the only loan detail records that will be included in the reconciliation file will be for those loans that have not yet been booked. Loan detail records will be returned as unreconciled by the LOC for one of the following reasons:

- Missing or inaccurate school loan data (including promissory notes)
- Missing or inaccurate LOC loan data
- Failure to resolve rejected loan transactions

COMMON RECONCILIATION PROBLEMS/RESOLUTIONS

In order to assist schools with resolving unreconciled items in the Cash Summary, Cash Detail and Loan Detail sections of the reconciliation acknowledgment, a list of common problems and resolutions follows:

I. **SUBMISSION ERRORS:**

Problem: ***The entire reconciliation file is returned as rejected by the LOC.***

Answer # 1: The school entered the wrong "as of" date.

The school should import the acknowledgment from the rejected file and export another reconciliation file using the correct "as of" date.

Answer # 2: The school reconciled for a period prior to the period covered in the last reconciliation file (for example, the last reconciliation file was for the period 9-30-97 and the school submitted a new file through 8-31-97).

The school should import the acknowledgment from the rejected file and export another reconciliation file using a later "as of" date (such as 9-30-97 or 10-31-97).

Problem: ***The reconciliation file is not processed by the LOC.***

Answer: This usually occurs when there is something wrong with the file; for example: the LOC never received it due to transmission problems or the school sent a duplicate batch, etc. If the school does not receive a timely acknowledgment, the school should call the LOC for assistance.

II. CASH SUMMARY:

Problem: ***The school's cash summary balances do not match the summary balances at the LOC.***

Answer # 1: This will occur when any cash or loan detail records are unreconciled.

The school should resolve any unreconciled items and then re-submit a reconciliation file using the same "as of" date. If all records are then reconciled, the summary balances should also reconcile. If not, the school should contact the LOC.

Answer # 2: The school has disbursement records recorded on its system that have not been submitted to the LOC or submitted for reconciliation.

Review reports for a disbursement status of not accepted. The school will need to export a disbursement file and transmit these records to the LOC. The school then needs to export a reconciliation file and transmit it to the LOC.

III. CASH DETAIL:

Problem: ***The cash receipt record the school sent in the reconciliation file does not match the LOC's due to a date discrepancy.***

Answer: The school needs to verify that cash receipts were posted with the date the money was deposited in its bank account. If the school's date is correct, the school should contact the LOC. If the school's date is incorrect, the school needs to reverse out the entry and add another entry with the correct date.

Problem: ***The school's record showing return of excess cash does not match the LOC due to a date discrepancy.***

Answer: The school needs to verify that the date it posted the transaction was the date the check was mailed (not the date of the check) or the date of the ACH or FEDWIRE transaction. If the school's date is correct, the school should contact the LOC. If the school's date is incorrect, the school needs to reverse out the entry and add another entry with the correct date.

Problem: ***The cash receipt and/or return of excess cash record the school sent in the reconciliation file does not match the LOC due to the school drawing down multiple times or sending back multiple excess cash records but recording only one transaction in its software.*** .

Answer: One entry should be recorded in the software for each drawdown or return of excess cash. The school needs to reverse out the incorrect entry and record an entry for each separate transaction.

Problem: ***The school sent a cash receipt record but the LOC does not have a matching record***

Answer # 1: The school or LOC incorrectly posted the cash receipt.

The school should verify that the cash receipt is a Direct Loan drawdown and not other Title IV funds. If the school is correct, the LOC may have posted the cash receipt to the wrong school. If the school is incorrect, the school needs to reverse out the entry.

Answer # 2: The school submitted two records for the same drawdown in the school's reconciliation file.

The school should reverse the double entry.

Answer # 3: The cash receipt record submitted by the school has been posted to the incorrect year by the LOC.

The school should contact the LOC to request that the data be posted to the correct year on the LOC's system.

Problem: ***The LOC has a cash receipt record posted, but the school has not submitted a matching record in the school's reconciliation file.***

Answer # 1: The school failed to enter the cash receipt in its software.

The school needs to enter the cash receipt in its software using the correct amount and the date the money was deposited in the school's bank account.

Answer # 2: This may have occurred because the school may not have transmitted a reconciliation file containing the cash receipt to the LOC and if the school did transmit the file, the school may not have imported the corresponding acknowledgment.

Answer # 3: The LOC applied the cash receipt to the wrong school.

The school needs to call the LOC to request the LOC to reverse the entry and post it to the correct school.

Problem: ***The school is sending a return of excess cash record but the LOC does not have a matching record.***

Answer # 1: The LOC posted the return of excess cash as a payment to the student's record.

The school should verify whether the transaction should be a payment or return of excess cash. If it should have been a payment, the school needs to reverse the entry on the school's system. If it should be an excess cash transaction, the school needs to call the LOC and have the payment reversed.

Answer # 2: The LOC has not received the return of excess cash.

The school should verify that the excess cash funds were actually returned to the correct address. If the funds were appropriately returned, the school should contact the LOC to determine why the funds were not been received by the LOC.

Answer # 3: The LOC posted the transaction to the wrong school.

The school needs to call the LOC to request the LOC to reverse the entry and post it to the correct school.

Problem: ***The LOC has a return of excess cash record posted but the school has not submitted a matching record in the reconciliation file.***

Answer # 1: The school failed to enter the excess cash record in its software.

The school needs to enter the excess cash record in its software using the correct amount and the date the check was mailed or the date of the ACH or FEDWIRE.

Answer # 2: This may have occurred because the school may not have transmitted a reconciliation file containing the excess cash record to the LOC and if the school did transmit the file, the school may not have imported the corresponding acknowledgment.

Answer # 3: The LOC applied the excess cash record to the wrong school.

The school needs to call the LOC to request the LOC to reverse the entry and post it to the correct school.

Answer # 4: The school returned the funds as a payment to the student's account, but the LOC recorded it as an excess cash transaction.

The school should verify whether the transaction should be a payment or return of excess cash. If it should have been a payment, the school needs to call the LOC and have the excess cash transaction reversed. If it should be an excess cash transaction, the school needs to create an excess cash transaction on the school's system.

IV. LOAN DETAIL:

Problem: ***The school submitted a disbursement, adjustment, or cancellation record in the reconciliation file but there is no matching record on the LOC's side.***

Answer # 1: The school has not transmitted the disbursement, adjustment, or cancellation record to the LOC.

The school needs to transmit the disbursement batch to the LOC.

Answer # 2: The record has not booked due to the timing of the submission of the disbursement to the LOC.

For 1995-96 and 1996-97, the record should reconcile when the school sends its next reconciliation file.

For 1997-98, the record will be reconciled when the disbursement has been acknowledged by the LOC (assuming the loan has been booked), and therefore, should not be included in the school's next reconciliation file.

Problem: ***The LOC has a disbursement, adjustment, or cancellation record, but the school has not submitted a matching record in its reconciliation file.***

Answer: The school needs to transmit a reconciliation file to the LOC with the corresponding loan detail record.

Problem: ***The record the school submitted does not match the LOC's record because the amounts are different.***

Answer: The school sent a disbursement record in a disbursement batch with one amount and then the school sent the same record in a reconciliation batch with a different amount.

The school needs to submit the correct amount in the school's next reconciliation file.

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